KiwiSaver Evaluation

Annual report:
July 2008 – June 2009

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Inland Revenue
Ministry of Economic Development
Housing New Zealand Corporation

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Contents

Executive summary

At 30 June 2009 KiwiSaver had been in operation for two years. This report provides an overview of KiwiSaver performance and trends for the period July 2008 to June 2009. It compares year one (July 2007 to June 2008) and two (July 2008 to June 2009) results and discusses recent policy changes and their implications.

Enrolments

Over the second year of KiwiSaver's operation (year ended 30 June 2009), membership has grown by 54% to reach more than 1.1 million members. While monthly membership growth has slowed on year one, an average of 32,000 individuals have continued to join KiwiSaver each month. A major contributor to this growth has been the number of people continuing to join KiwiSaver by opting-in via a provider and the ongoing enrolment of children. At the end of the second year, 39% of the total membership had joined through automatic enrolment.

Fund flows to providers

During the year, $2.116 billion in funds from members, employers and the Crown were passed from Inland Revenue to scheme providers for investment; double that contributed in the first year. The value of funds coming from members and employers as a proportion of the total increased in year two and the Crown's proportion declined. Overall, across both years, 42% of funds have been contributed by members, 13% by employers and 45% by the Crown.

Assets under management and scheme choices

At the end of the June quarter, the value of KiwiSaver assets under management had grown to $3.039 billion. The majority of the assets (78%) are under management in nine schemes. Most schemes however, remain relatively small; 30 schemes have assets under management of less than $10 million.

Assets are largely invested in relatively conservative funds; 49% of assets at March 2009 were invested in conservative options compared with 18% in growth-orientated funds. An estimated 56% of funds are invested in New Zealand assets and 44% in overseas assets. Conservative funds have generated the best returns for members over the year to March 2009.

At the end of the year (30 June 2009), there were 52 schemes on offer from 30 providers, following the first signs of consolidation in the market. The number of members transferring between schemes has grown almost three-fold over the year. Some of these transfers are the result of the winding up of two schemes towards the end of the year and members either voluntarily transferring to another scheme prior to the wind up or being reallocated by Inland Revenue amongst the six default products. The number of scheme changes within the three-month funds holding period has reduced significantly suggesting that those who joined in year two have been less inclined to make their own choice of scheme when they first join.

Costs of KiwiSaver

For the year to 30 June 2009, KiwiSaver cost employers $149 million – $355 million in employer contributions made less $206 million in offsetting Employer Tax Credit (ETC) payments. This however, does not represent the full costs of KiwiSaver for employers as it does not include day-to-day administrative and compliance costs associated with accommodating KiwiSaver in the workplace.

For the same period, KiwiSaver has cost the Crown $1.045 billion; $839 million in contribution payments to members' accounts and $206 million on ETC payments for employers. This represents an increase of more than two-thirds on year one costs. Over the two years, the Crown has paid a total of $1.655 billion to members and employers.

Member profile

At the end of year two, the gender breakdown of KiwiSaver members was the same as it was at the conclusion of year one; 52% of the membership base at 30 June in both years were female and 48% male. The income distributions of members and the eligible population are similar. Just over 50% of both the KiwiSaver member and the eligible population earned up to $30,000 in 2008 and just over three-quarters of both populations earned up to $50,000 that year.

Over the two years, the age profile of those joining KiwiSaver has changed. Over time, the proportion of individuals aged 45 years and above enrolling has declined and the proportion of individuals under 25 enrolling has increased. The proportion of enrolments coming from the mid-age bracket has remained relatively stable over the two-year period.

Member contribution patterns

In April 2009, changes were made to the minimum required member contribution rate. This report has considered both those individuals who were members of KiwiSaver prior to the changes in contribution rate and those who have joined subsequently. It is still very early on under the new arrangements and it will take time to observe the extent to which members choose to contribute at the new lower rate, or whether they opt for a higher rate. Further, members may choose to contribute at different rates at different points in their working life and it will take time for these behaviours to emerge.

At June, most members were contributing at 4% of their salary or wages to their accounts. Twelve percent were contributing at the lower 2% rate. However, of those who joined KiwiSaver since the changes were in place, approximately half were contributing at 2% and just less than half had chosen to contribute at a higher rate (either 4% or 8%). Of those who joined before 1 April 2009, most have not changed their previous contribution rate. This suggests that, most individuals are being influenced by the default arrangements in place at the point that they join KiwiSaver, although the early figures for those joining after 1 April suggest that members are exercising some choice over their contribution rate.

Most members under 18 years are not contributing to their accounts. For the 2008/09 year, 6% of the more than 180,000 members who are children contributed through Inland Revenue to their accounts at a total value of $2 million. This means there are likely large numbers of accounts being managed by providers containing nothing more than the $1,000 kick-start payment. Of the contributing children, almost all are contributing through salary or wage deductions.

The number of members on a contribution holiday has increased considerably over the year due to the first members being eligible for an ordinary contribution holiday from July 2008. At the end of the year, 25,935 members were on a holiday, an estimated 4% of those eligible to be on holiday at that point. The number of individuals on long, five-year holidays is growing.

Evaluation next steps

In 2009/10 the evaluation is undertaking the following:

- Research with individuals to provide early information on the impact of KiwiSaver on individuals' savings and the extent to which KiwiSaver's specific features are influencing take-up and individuals' approaches to managing their accounts;

- Research with employers to determine the impact of KiwiSaver on employers' costs and to determine how employers' approach to KiwiSaver (e.g. in terms of remuneration policy and accommodation of existing workplace superannuation schemes) affects employees' participation;

- Beginning the evaluation of the homeownership features investigating the awareness and expected uptake of first home withdrawal and the deposit subsidy; and

- Updating industry baseline research to profile the KiwiSaver market and assess KiwiSaver's impact on the wider superannuation and managed funds sector.

This research will add to the understanding of the current and potential future performance of KiwiSaver by investigating its costs and benefits, including impacts on the development of the KiwiSaver market, on the savings and asset accumulation of individuals, and on those involved in administration, namely employers and providers.

1. Introduction

Report purpose

At 30 June 2009, KiwiSaver had been in operation for two years. This report provides an overview of KiwiSaver performance and trends for the year July 2008 to June 2009, compares year one (July 2007 to June 2008) and two (July 2008 to June 2009) results, and discusses recent policy changes and their implications.

Why evaluate?

The introduction of KiwiSaver represented a significant change to savings policy in New Zealand. To take KiwiSaver from inception to its current position with 1.1 million members at the end of its second year has required investment from the Crown, the superannuation industry, and employers.

Evaluation is an important mechanism to determine the return on policy investments. In the case of KiwiSaver, evaluation will determine whether the investment made has had the intended impact on savings behaviours and whether KiwiSaver has proved a cost effective way to achieve any change in savings. Additionally, as a core part of the policy development process, evaluation provides evidence of the effectiveness of existing policies, feedback on areas for improvement, and assists in monitoring risks.

Evaluation purpose and objectives

The KiwiSaver evaluation is a joint project between Inland Revenue, the Ministry of Economic Development and Housing New Zealand Corporation running to 2012/13. Its objectives are to:

- Assess the implementation and delivery of KiwiSaver in order to inform ongoing development and service delivery;
- Assess whether the key features of KiwiSaver are generating the expected outcomes;
- Monitor KiwiSaver usage to understand the scale and pattern of take-up;
- Examine the impact of KiwiSaver on individuals' saving habits and asset accumulation; and
- Examine the impact of KiwiSaver on superannuation markets and the financial sector.

The timeframe for the evaluation reflects the fact that the rollout of KiwiSaver features is staged and that longer-term trends (e.g. whether KiwiSaver has resulted in additional savings) will not be evident immediately but will emerge towards the end of the evaluation term and beyond.

2. Enrolments, costs and funds saved

This section describes the flow of funds and members into the market in year two (year to 30 June 2009) and the costs of KiwiSaver for the Crown and employers. It draws comparisons with results for year one (year to 30 June 2008) in order to understand the changing profile of members and funds over time.

What do enrolment patterns look like?

During its second year (year to 30 June 2009), KiwiSaver membership reached one million and by the end of the year, a total of 1,100,540 individuals had enrolled, or an estimated 29% of the eligible population.[1] At the end of the first year (30 June 2008), KiwiSaver had 716,637 members. In the second year the membership grew by 54%, or 383,903 members.

The numbers of individuals enrolling by opting-in directly with a provider grew most significantly over the year, increasing 74% on the year one figures. Members joining through automatic enrolment grew by 56% on year one. The numbers of individuals opting-in through their employer grew least (16%) over the year.

Note that a change was made in the way enrolment method is reported during the 2008/09 year. Figures in the table below for year one have been revised to reflect the revised approach and to enable comparisons with year two figures. For further explanation on the change in reporting enrolment method refer to the appendices.

Table 2.1: Total enrolments (years ended 30/06/08 and 30/06/09)

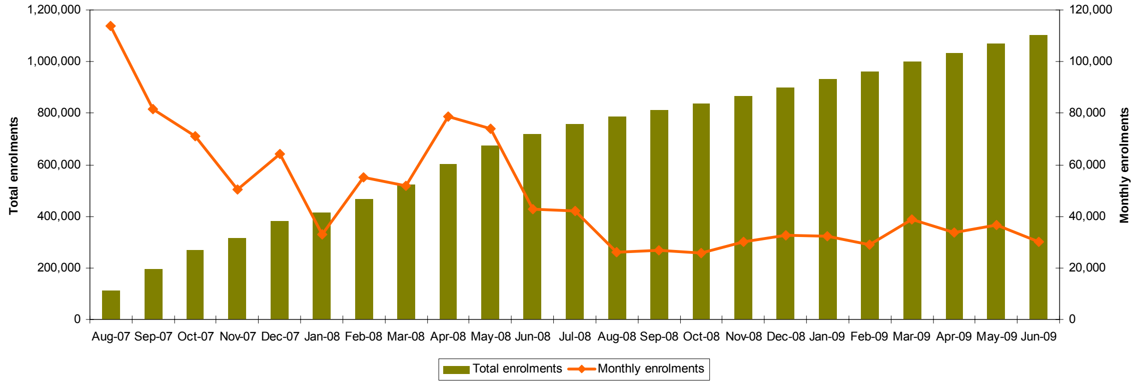
Enrolment status	Year one (ended 30/06/08)		Year two (ended 30/06/09)		Percent change on year one
	Members	Percent net enrolments	Members	Percent net enrolments	
Opt-in via provider	273,948	38%	477,971	43%	74%
Opt-in via employer	169,410	24%	195,940	18%	16%
Auto-enrolled	273,279	38%	426,629	39%	56%
Total enrolments (net)	**716,637**	**100%**	**1,100,540**	**100%**	**54%**
Opt-out	137,762		221,045		60%
Closed account	1,044		8,240		
Total enrolments (gross)	**855,443**		**1,329,825**		55%
Financial hardship holidays	3,280		813		
Ordinary contribution holidays	-		25,122		

Base: All enrolments (gross) 1 July 2007 to 30 June 2009. Note that the approach to reporting enrolment method changed and figures for 30 June 2008 have been revised. The figure for total enrolments for year one is unaffected; the revised approach has led to reclassification across enrolment method groups.
Source: Inland Revenue administrative data.

[1] Figures for eligible population as at 2009 have been drawn from Treasury's long-term fiscal model.

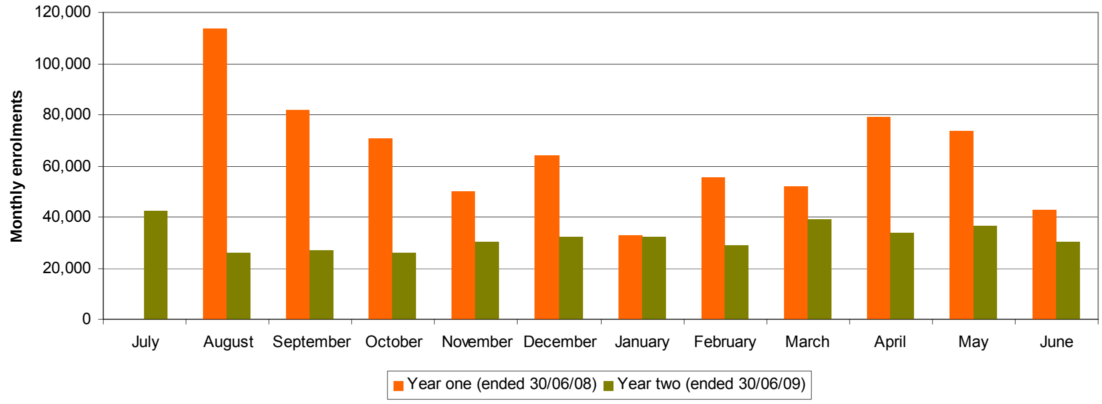
While enrolments grew at an average of 32,000 members per month over the year to June 2009, monthly enrolments have slowed in year two (figure 2.1). Figure 2.2 shows the level of enrolments for each month in year one and year two. It shows that in every month, with the exception of January, enrolments in year two have been lower than year one.

Figure 2.1: Total and monthly enrolments



Base: All enrolments (net) 1 July 2007 to 30 June 2009. Note that the approach to reporting enrolment method changed in July 2008. The figures for total and monthly enrolments are unaffected; the revised approach has led to reclassification across enrolment method groups. Note enrolments for July and August 2007 are combined.
Source: Inland Revenue administrative data.

Figure 2.2: Monthly enrolments (years ended 30/06/08 and 30/06/09)



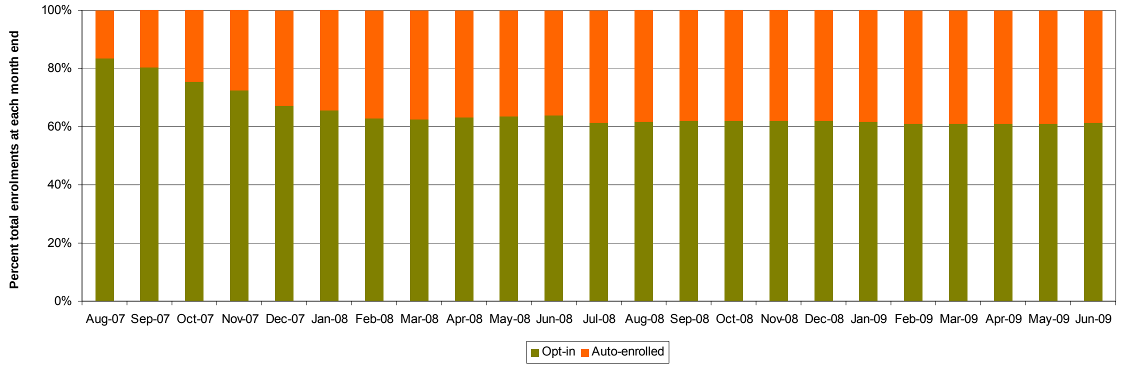
Base: All enrolments (net) 1 July 2007 to 30 June 2009. Note that the approach to reporting enrolment method changed in July 2008. The figures for total and monthly enrolments are unaffected; the revised approach has led to reclassification across enrolment method groups. Note enrolments for July and August 2007 are combined.
Source: Inland Revenue administrative data.

At the conclusion of the year, of all members, 39% had joined KiwiSaver through automatic enrolment. Figure 2.3 shows that the split between opt-ins and automatic enrolments has remained stable over the course of the year. During the first year (year to 30 June 2008), automatic enrolments comprised 16% of all enrolments in August 2007 and had increased to 35% of the month's enrolments by June 2008.

The continued strength of the numbers of individuals opting-in is in large part due to the ongoing enrolment of children (i.e. those less than 18 years). Over the course of the year to June 2009, children comprised an average of one-quarter (26%) of all enrolments each month and an average of 45% of all monthly enrolments directly with providers. Over year one (year to June 2008), children accounted for an average of 12% of enrolments each month, meaning that the proportion of children being enrolled has more than doubled in the year to June 2009.

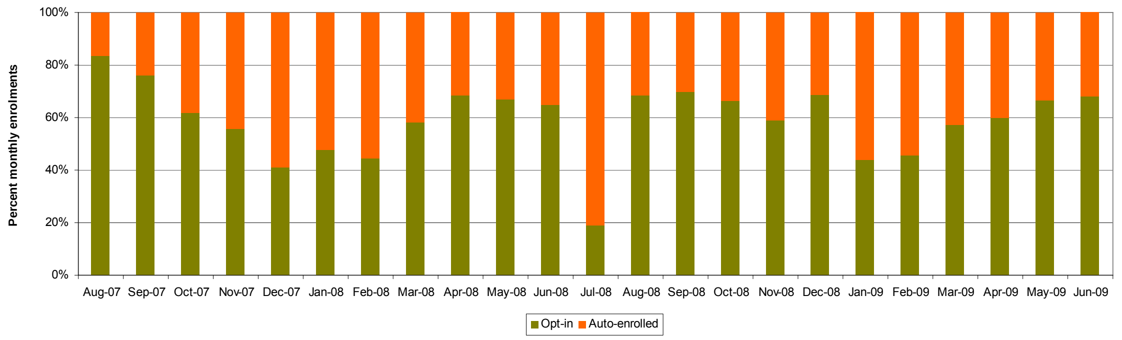
On a month-by-month basis, the proportion of those opting-in and those being automatically-enrolled varies considerably (figure 2.4). The results for July 2008 are the result of the revision in the way enrolment method is reported, but July aside, the way individuals join each month exhibits seasonal characteristics with higher proportions of members joining through automatic enrolment in summer months and lower rates through the mid-year period.

Figure 2.3: Total enrolment composition



Base: All enrolments (net) 1 July 2007 to 30 June 2009. Note that the approach to reporting enrolment method changed in July 2008 and figures for 30 June 2008 have been revised. The figures for total enrolments are unaffected; the revised approach has led to reclassification across enrolment method groups.
Source: Inland Revenue administrative data.

Figure 2.4: Monthly enrolment composition



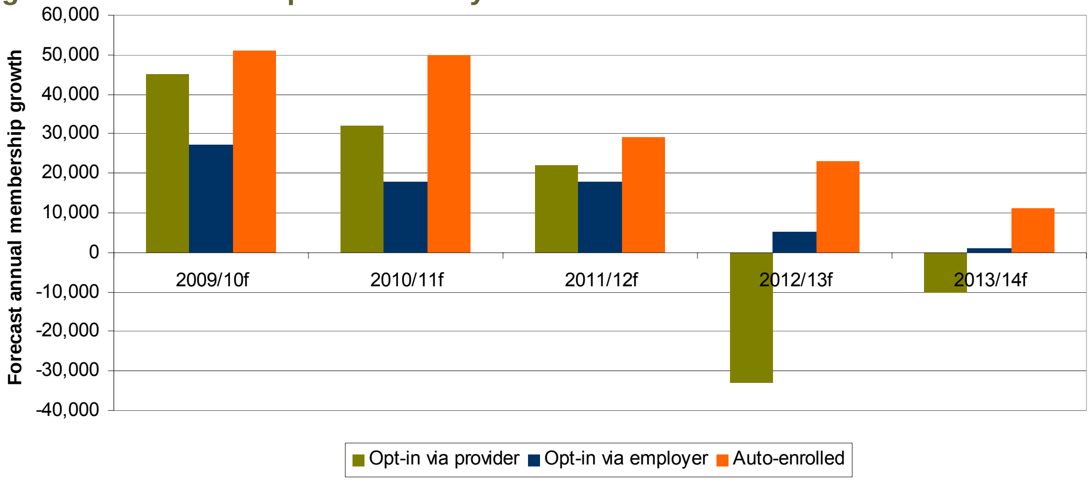
Base: All enrolments (net) 1 July 2007 to 30 June 2009. Note that the approach to reporting enrolment method changes in July 2008. The figures for total enrolments are unaffected; the revised approach has led to reclassification across enrolment method groups. This reclassification, which reallocates a number of members who previously were reported as opt-in via provider to both opt-in via employer and auto-enrolled groups (i.e. the total number of members who have joined via a provider at this point declines) produced the result in the chart for July.
Source: Inland Revenue administrative data.

At the conclusion of the year, 221,045 individuals had opted-out and a further 8,240 had had their accounts closed. The total opt-out rate (total opt-outs divided by total automatic enrolments) has continued to remain steady over year two but the monthly opt-out rate varies considerably. The closed accounts are almost all the result of invalid enrolments (e.g. a non-resident being automatically enrolled by their employer) rather than representing "genuinely" closed accounts (e.g. for reasons including death and permanent emigration).

Membership forecasts

Forecasts anticipate the membership base will reach 1.38 million by the 2013/14 year. The figure below shows the anticipated growth in membership by enrolment method for the 2009/10 year (current year) onwards. Growth in all enrolment methods is forecast until the 2012/13 year with automatic enrolments and opting-in via a provider continuing to be the major ways that individuals join. However, the rate of growth in automatic enrolments is forecast to exceed that of both opt-in methods combined from 2009/10.

Figure 2.5: Membership forecasts by enrolment method



Base: Total KiwiSaver membership, excluding members of complying funds and including those on a contribution holiday.
Source: Inland Revenue Befu09 forecasts.

The anticipated declining membership in the opt-in via provider method from 2012/13 is due to the fact that members aged over 60 years who enrolled in year one will begin to access their accounts in 2012/13. This activity in closing accounts is assumed to exceed new members joining via providers in this period.

How much has been saved in KiwiSaver accounts?

For the year to June 2009, $2.116 billion in contributions from members, employers and the Crown were passed from Inland Revenue to providers for investment, more than double that contributed for the first year (year to 30 June 2008). In total, $3.154 billion contributions have been transferred to providers (table 2.2). Given that members can contribute funds to providers directly, this figure understates the total value saved to date, in terms of fund inflows, in KiwiSaver accounts.

Table 2.2: Gross funds passed from Inland Revenue to providers

Contribution type/source	Year one (ended 30/06/08)		Year two (ended 30/06/09)		Total to date	
	$m	Percent of funds	$m	Percent of funds	$m	Percent of funds
Member contributions	395	38%	917	43%	1,311	42%
Employer contributions	64	6%	355	17%	418	13%
Ad hoc contributions	7	1%	6	<1%	13	<1%
Total member	**466**	**45%**	**1,277**	**60%**	**1,743**	**55%**
Kick-start	551	53%	471	22%	1,023	32%
Fee subsidy	15	1%	34	2%	49	2%
Interest	5	<1%	12	1%	17	1%
Member tax credit	-	-	322	15%	322	10%
Total Crown	**572**	**55%**	**839**	**40%**	**1,411**	**45%**
Total contributions	**1,037**	**100%**	**2,116**	**100%**	**3,154**	**100%**

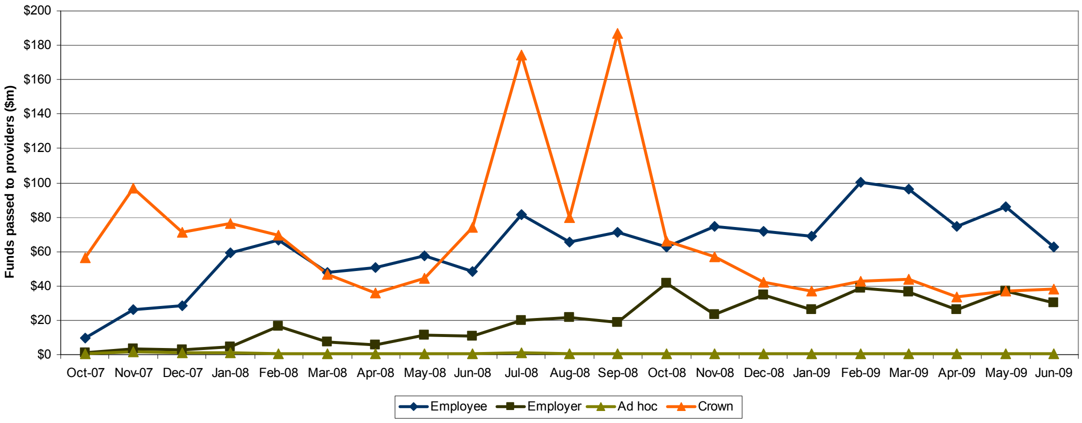
Base: All funds passed from Inland Revenue to providers for the period 1 July 2007 to 30 June 2009 (cash basis). Ad hoc contributions are those received by Inland Revenue but not via an Employer Monthly Schedule. Excludes refunds to Inland Revenue and contributions made directly to providers. Excludes payments made to complying funds. Totals may not add due to rounding.
Source: Inland Revenue administrative data.

The figure below shows that contributions from members and employers have continued to increase over the year. The growth in employer contributions in year two over year one is due to the fact that compulsory employer contributions were not introduced until April 2008 (the final quarter of year one). Member contributions in year two have exceeded by almost two-and-a-half times those made in year one. Ad-hoc contributions, that is, those contributions that are made through Inland Revenue but not through the Employer Monthly Schedule (EMS) process (i.e. are not contributed through direct deductions from salary or wages) are small and have declined on year one.

Of the total member contributions made in year two (both through PAYE and via ad-hoc payments), the majority was contributed by those members who joined in year one; 81% of funds contributed through PAYE in year two were contributed by those members who joined in year one and 80% of ad-hoc contributions made were made by members who joined in year one.

The monthly contributions from the Crown were significant in the first quarter of the year due to the payment of member tax credit (MTC) claims for the 2007/08 year into members' accounts. From the December quarter onwards, the value of the Crown's contributions each month has declined.

Figure 2.6: Gross funds passed from Inland Revenue to providers by month and source



Base: All funds passed from Inland Revenue to providers for the period October 2007 to June 2009 (cash basis). Ad hoc contributions are those received by Inland Revenue but not via an Employer Monthly Schedule. Excludes refunds to Inland Revenue and contributions made directly to providers. Excludes payments made to complying funds.
Source: Inland Revenue administrative data.

While the figures above provide a picture (albeit a partial one) of the value of the funds flowing to providers, figures from the Government Actuary's annual report on KiwiSaver schemes show the value of the KiwiSaver assets under management. The report covers the year ended 31 March 2009 and shows that at year end total KiwiSaver assets under management were $2.654 billion.

The table below provides a breakdown of the KiwiSaver assets by schemes and membership. Many of the KiwiSaver schemes remain small; 30 of the 54 schemes represented in the table have scheme assets of less than $10 million. Nine schemes had assets of $100 million or greater and these schemes hold 78% of the total assets and 73% of the total membership.

Table 2.3: Scheme size by membership and assets under management

Asset grouping	Number of schemes	Total assets ($m)	Total membership
Under $0.5m	11	2	446
$0.5m to under $2.5m	9	10	2,259
$2.5m to under $10m	10	51	15,565
$10m to under $25m	6	87	45,839
$25m to under $50m	6	210	79,759
$50m to under $100m	3	221	115,054
$100m and over	9	2,074	716,687
Total	**54**	**2,654**	**975,609**

Base: Scheme size summary for all KiwiSaver schemes registered with the Government Actuary as at 31 March 2009 that provided statistical returns to the Government Actuary as required by section 125 of the KiwiSaver Act 2006. Totals may not add due to rounding.
Source: Report of the Government Actuary for the year ended 30 June 2009.

In the final quarter of the year, there were the first signs of consolidation in the KiwiSaver market with the wind up of two schemes. At the conclusion of the year there were 52 KiwiSaver schemes on offer to members by 30 providers.

The Reserve Bank of New Zealand's Managed Funds Survey estimates that by the end of the June quarter total funds under management had grown to $3.039 billion. Data for the estimated total KiwiSaver assets under management and total managed funds for the period since the March 2008 quarter are set out in table 2.4. By the June 2009 quarter, KiwiSaver assets had grown to 5% of total managed fund assets and 15% of total superannuation assets (KiwiSaver plus other super).

Table 2.4: KiwiSaver, superannuation and total managed funds assets under management

Quarter	KiwiSaver ($m)	Other (non-KiwiSaver) super ($m)	Total managed funds ($m)
March 2008	746	20,458	60,772
June 2008	1,157	19,958	60,104
September 2008	1,792	18,747	58,213
December 2008	2,134	16,826	55,578
March 2009	2,507	16,062	54,435
June 2009	3,039	17,225	56,568

Base: The Survey has an estimated 90% coverage of the managed funds market. It also excludes funds under management in the New Zealand Superannuation Fund.
Source: Reserve Bank of New Zealand Managed Funds Survey.

What has KiwiSaver cost the Crown?

In year two, KiwiSaver cost the Crown a total of $1.045 billion in payments to members and employers, comprising $839 million paid in contributions to members and $206 million in Employer Tax Credit (ETC) payments to offset the costs of employer contributions. This represents a 71% increase in costs when compared to the total cost of $610 million for the year to 30 June 2008 (comprised of $38 million ETC payments and $572 million member contributions). The payments to members increased 47% on year one payments but accounted for a smaller percentage of total Crown costs.

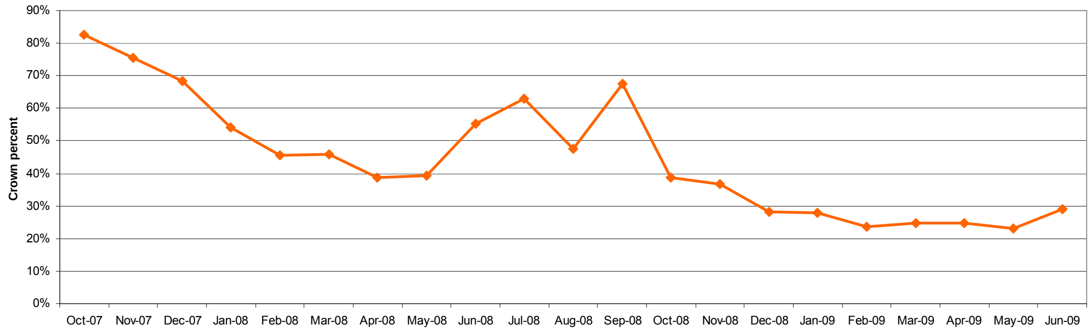
Table 2.5: Crown costs

Cost	Year one (ended 30/06/08)		Year two (ended 30/06/09)		Total to date	
	$m	Percent	$m	Percent	$m	Percent
Payments to members	572	94%	839	80%	1,411	85%
ETC payments	38	6%	206	20%	244	15%
Total Crown	**610**	**100%**	**1,045**	**100%**	**1,655**	**100%**

Base: All funds passed from Inland Revenue to providers for the period October 2007 to June 2009 (cash basis). Excludes refunds to Inland Revenue and contributions made directly to providers. Excludes payments made to complying funds. All ETC payments paid for the year to 30 June 2008 and year to 30 June 2009 (cash basis).
Source: Inland Revenue administrative data.

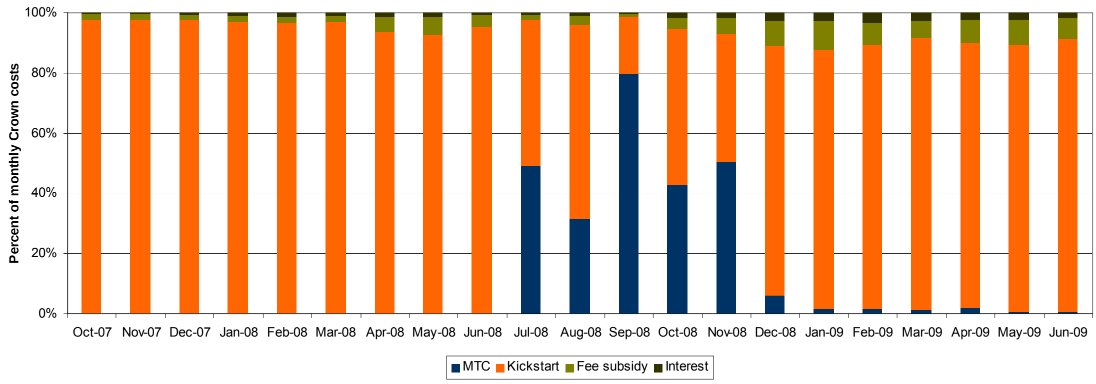
Figure 2.7 below shows the Crown's contribution as a proportion of the total value of funds passed to providers for investment in member accounts. It shows that the contribution from the Crown is declining over time. The Crown has contributed 45% of the total value of funds saved over the first two years. The Crown's costs are, at this stage, being driven by kick-start payments for new members (figure 2.8). As membership growth slows, kick-start payments will become less significant and the MTC payments will comprise the greater proportion of the Crown's costs.

Figure 2.7: Crown contribution as proportion of total funds passed to providers



Base: Crown contributions passed from Inland Revenue to providers for October 2007 to June 2009 (cash basis). Excludes refunds to Inland Revenue and payments to complying funds.
Source: Inland Revenue administrative data.

Figure 2.8: Composition of Crown contribution to members



Base: Crown funds passed from Inland Revenue to providers for October 2007 to June 2009 (cash basis). Excludes refunds to Inland Revenue and payments made to complying funds.
Source: Inland Revenue administrative data.

What has KiwiSaver cost employers?

The legislative changes made to KiwiSaver in December 2008 had implications for the costs of KiwiSaver for employers. Compulsory employer contributions were capped at 2%, taking affect from 1 April 2009, and the ETC which offset the costs to employers was removed. Additionally, from 1 April 2009, the scheduled increase in the level of compulsory employer contributions took place. This means that in the last quarter of the year, the required level of employer contributions increased (although subsequent increases to 3% and later 4% were cancelled) and employers lost the offsetting capability of the credit.

Over the course of the year, Inland Revenue passed $355 million in employer contributions to providers for investment in their employees' accounts. This includes compulsory contribution requirements and additional payments made by employers that are not required by legislation but nonetheless are commitments employers have made as part of employees' employment agreements. Against these contributions, employers received $206 million in ETC payments. This means the total cost to employers for the year was $149 million (table 2.6). For the year, the ETC covered 58% of employers' contribution costs, across all employers.

Table 2.6: Employers' costs

Cost and credit type	Year one (ended 30/06/08) ($m)	Year two (ended 30/06/09) ($m)	Total to date ($m)
Employer contributions	64	355	419
ETC received	38	206	244
Employer costs	**26**	**149**	**175**

Base: All employer contributions passed to providers at year ended 30 June 2008 and 30 June 2009, including compulsory and non-compulsory contributions. ETC paid to employers for the year to 30 June 2008 and 30 June 2009 (cash basis).
Source: Inland Revenue administrative data.

Table 2.7 shows the rate of contribution that employees were receiving from their employers in the final quarter of the year, once the increase in the employer contribution rate had taken effect. Most employees (90%) are receiving the minimum 2% from their employers. Seven percent are receiving either a 3% or 4% contribution from their employer. Those receiving no contribution from their employer are likely to be those with other workplace superannuation schemes to which their employer contributes.

Table 2.7: Employer contribution rates

Employer contribution rate	Percent of employees receiving rate
2%	90%
3%	4%
4%	3%
Other percent	1%
No contribution	3%
Total	**100%**

Base: All members at 30 June 2009 with EMS deductions. Contribution rate is calculated using the period April to June 2009. Those on contribution holidays are excluded. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

These costs exclude the administrative and compliance costs that employers incur in having employees as KiwiSaver members. To fully measure the costs of KiwiSaver, these administrative and compliance costs need to be included. Over the current financial year (2009/10) the evaluation is planning research with employers to determine more fully the costs of KiwiSaver for employers, including the ongoing costs of administering KiwiSaver and complying with requirements, the impact of KiwiSaver on remuneration approaches and the costs associated with making changes in this area, and impacts on existing workplace-based superannuation schemes. The impact on employers of the reduction in minimum employer contribution rates, and employers' intended responses, will also be investigated in this research.

3. Membership profile and account choices

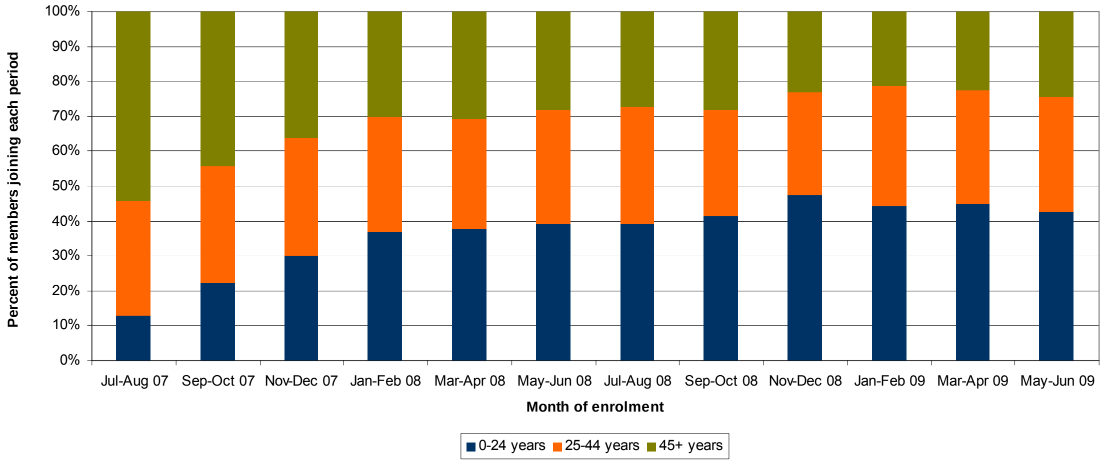
This section describes the profile of the membership base at the end of year two. It focuses on contribution patterns and rates, and provides early indications of the number of people who have changed their contribution rate in light of the recent policy changes. It also discusses individuals' choices regarding their KiwiSaver schemes and investments.

Member profile

At the end of year two (ended 30 June 2009), the gender breakdown of KiwiSaver members was the same as it was at the conclusion of year one; 52% of the membership base at 30 June in both years were female and 48% male.

Over the two years, the age profile of those joining KiwiSaver has changed. Figure 3.1 below shows the age of members joining in each two-month period to date. Over time, the proportion of individuals aged 45 years and above enrolling has declined and the proportion of individuals under 25 enrolling has increased. The proportion of enrolments coming from the mid-age bracket each period has remained relatively stable over the two years. Across all months enrolments are split relatively equally between the three age groups; 35% of all enrolments were less than 25 years at time of joining, 33% were between 25 and 44 years, and 33% were aged 45 years and above.

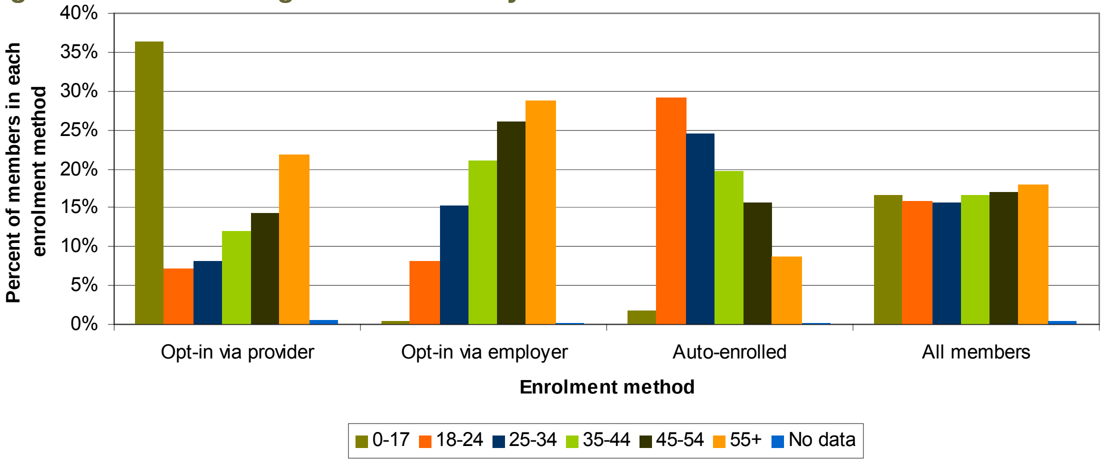
Figure 3.1: Member age at join date



Base: All members at 30 June 2009.
Source: Inland Revenue administrative data.

The age distributions of members enrolling via the three methods continue to exhibit the same overall characteristics as previous periods. The total membership distribution is relatively flat at the end of year two, having flattened over the second year (figure 3.2). The proportion of the opt-in via provider population under 18 years has increased 12% over the past year. More than half (55%) of the opt-in via employer population are aged 45 years plus compared with less than one-quarter (24%) of the auto-enrolled group. Some of the change in age profile will be the result of the revisions in enrolment method reporting.

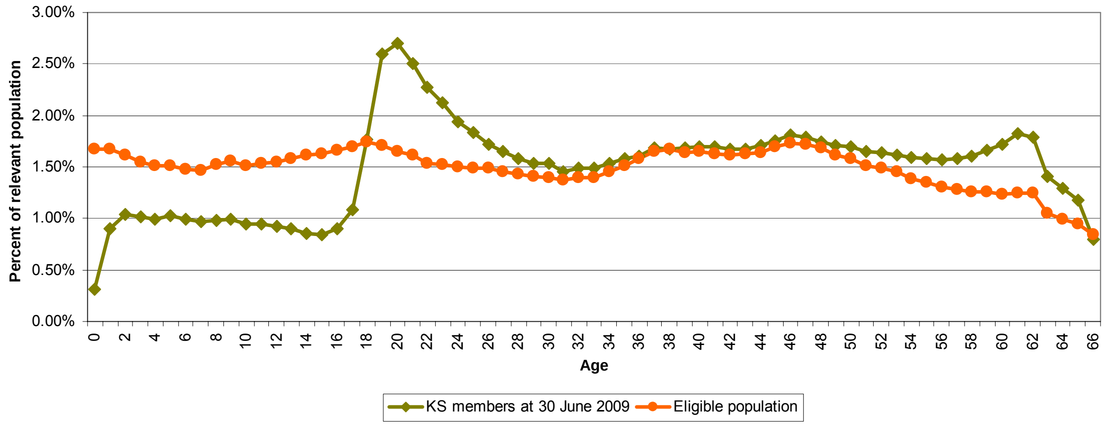
Figure 3.2: Member age distribution by enrolment method



Base: All members at 30 June 2009.
Source: Inland Revenue administrative data.

Figure 3.3 below shows the age distribution of the KiwiSaver member population at 30 June 2009 (i.e. not their age at point of joining) alongside the distribution of the eligible population. The KiwiSaver population is over-represented from the age of 19 years through to the mid-20s and also from the mid-50s up to 65 years. The figures for the 50s and 60s group reflect the high uptake in early months of year one amongst this group and the results for those in their 20s reflect the effectiveness of automatic enrolment in encouraging the participation of those in this age group.

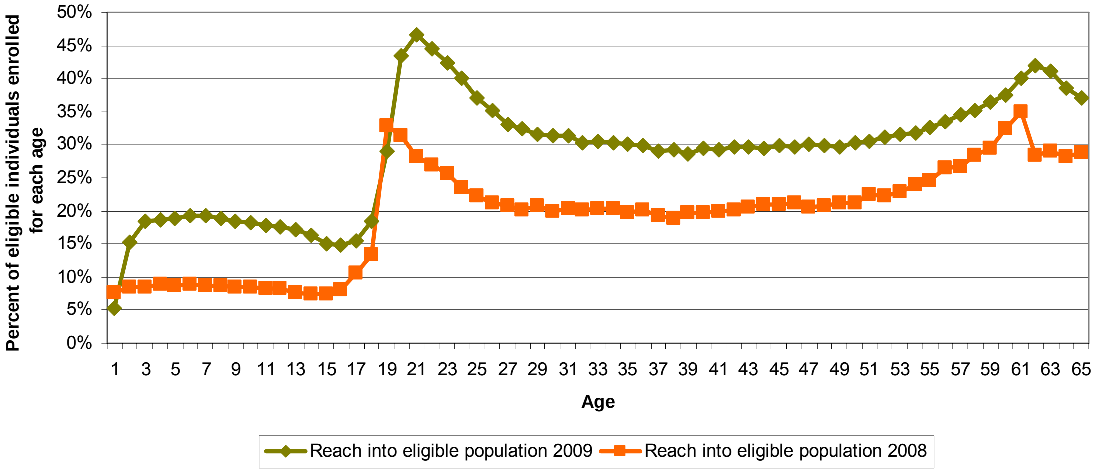
Figure 3.3: Age distribution of KiwiSaver members and eligible population



Base: All members at 30 June 2009. Eligible population are all those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2009.

Figure 3.4 below shows the reach of KiwiSaver into the eligible population by age for both the year ended 30 June 2008 and that ended 30 June 2009. While the proportion of KiwiSaver members who are children is still lower than the proportion of the eligible population who are less than 18 (figure 3.3), by the end of KiwiSaver's second year, approximately 15% to 20% of eligible children were enrolled in KiwiSaver. More than 30% of eligible individuals aged 19 to 35 and 51 plus are enrolled in KiwiSaver.

Figure 3.4: KiwiSaver reach into eligible population

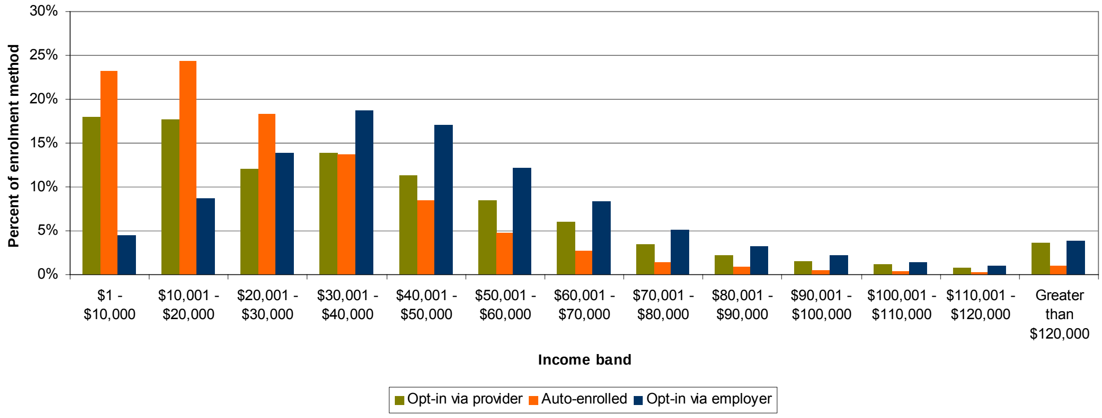


Base: All members at 30 June 2008 and 30 June 2009. Eligible population are all those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2008 and 2009.

The income distribution for those who are automatically enrolled is more skewed towards lower incomes than that for those who either opted-in via their employer or directly with a provider. This is to be expected due to the younger age profile of automatic enrolees. Those who opted-in via their employer have an income distribution more skewed towards mid to higher incomes. Two-thirds (66%) of those who were automatically enrolled had incomes of up to $30,000 for 2008 compared with approximately one-quarter (27%) of those who opted-in via their employer.

The income distributions of members and the eligible population are similar. There are slightly lower proportions of KiwiSaver members than the population as a whole at very low income levels (up to $10,000) but slightly higher in the $20,000 to $30,000 band (figure 3.6). Just over 50% of both the KiwiSaver member and the eligible population earned up to $30,000 in 2008 and just over three-quarters of both populations earned up to $50,000 that year.

Figure 3.5: Income distribution by enrolment method



Base: All members at 30 June 2009 with income for the 2008 tax year. Income relates to the 2008 tax year and includes income from salary and wages (including benefit payments) and IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Those members with no income for 2008 are excluded.
Source: Inland Revenue administrative data.

Figure 3.6: Income distribution for KiwiSaver members and eligible population

Base: All members at 30 June 2009 with income for the 2008 tax year. Eligible population are all those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined, with income for the 2008 tax year. Income relates to the 2008 tax year and includes income from salary and wages (including benefit payments) and IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Those members with no income for 2008 are excluded.
Source: Inland Revenue administrative data.

Financial knowledge and membership

In March and April 2009 the Retirement Commission undertook an update study of the Financial Knowledge survey first conducted in 2006. The survey aims to monitor the levels of financial literacy amongst the population to assist in the development of programmes to improve New Zealanders' financial understanding. The 2009 survey included questions on the uptake of KiwiSaver since it had been launched since the first survey was undertaken in 2006.

Twenty-nine percent of the survey's respondents were KiwiSaver members and the survey found uptake of KiwiSaver was higher amongst those respondents classified as having high levels of financial knowledge. Uptake of KiwiSaver in the advanced knowledge group (a subset of those classified as having high knowledge scores) was at 40% compared with 19% uptake amongst the group with lowest financial knowledge scores (a subset of those classified as having low knowledge scores).[2]

Additionally, the survey results showed that KiwiSaver members tend to have higher levels of financial knowledge than non-members. Fifty-one percent of KiwiSaver members were, according to their survey responses, considered to have a high level of financial knowledge compared to 40% of non-members and 21% of KiwiSaver members had a knowledge score that placed them in the low knowledge group compared to 35% of non-members.

The survey also found that those who are older (55 to 64 years) (44%) and those in paid employment (37%) were more likely than average (29%) to be members of KiwiSaver. However, figures above on the age of members show that the age distribution of the membership base is changing. Those with only primary or basic secondary education (20%), those not in paid employment (15%), and those with household incomes of less than $20,000 (20%) were less likely than average (29%) to be members of KiwiSaver.

What are members contributing to KiwiSaver?

In December 2008, the government passed legislation making changes to KiwiSaver policy which included the reduction of the minimum member contribution rate from 4% to 2% of gross salary or wages. The following considers members' contribution choices at the end of the year, once the changes had come into affect.

For the following figures and tables a member's contribution rate has been determined as follows:

- Where a contribution is calculated to be within half a percent either side of the specified contribution rate it is counted against that rate (i.e. those members whose deduction is within 1.5% and 2.5% of their gross salary or wage payment are considered to be contributing at 2%).

- A contribution rate is calculated using the individual's contributions and income from their employer's monthly schedule for their most recent payments. In order to be included in the table below, individuals must have made at least two contributions over the April to June period. Contributions made must be consistent. This condition means that those who joined close to the end of the year are likely to be underrepresented (i.e. those who joined close to the end of year may have only made one contribution payment by 30 June or they may have made more than one contribution since joining but their contributions may not yet be consistent (e.g. as a result of partial pay periods at the beginning of employment) so will not be included in the table).

- Only those members who appear on an Employer Monthly Schedule (EMS) are included (i.e. only those who are contributing from salary or wage income). Payments made to Inland Revenue outside the EMS mechanism or directly to scheme providers are excluded.

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[2] Financial knowledge scores were constructed based on respondents' answers to a range of questions relating to mathematical and standard literacy, financial understanding, financial competence and financial responsibility.

Table 3.1 shows that most members (83%) are contributing 4% of their salary or wages. Twelve percent of members were contributing at 2% at the end of the year. This table includes all members at 30 June 2009, both those who joined after 1 April 2009 under the 2% minimum rate and those who joined prior to 1 April when 4% was the default minimum contribution rate.

Table 3.1: Member contribution rates

Contribution rate	Members	Percent of members
2%	57,544	12%
4%	405,344	83%
8%	20,835	4%
Other percent	1,793	<1%
Total	**485,516**	**100%**

Base: All members at 30 June 2009 with EMS deductions. Those on contribution holidays, whether or not they are continuing to contribute, and those who make contributions directly to providers or ad hoc contributions to Inland Revenue not through the EMS process are excluded. Contribution rate is calculated using the period April to June. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Impact of the change in member contribution rate

The following tables separate the membership base at 30 June 2009 into those members who joined after 1 April 2009 and those who joined prior to 1 April in order to begin to investigate whether those who joined before 1 April 2009 have changed, or are likely to change, their contribution rate to the lower 2% rate and whether those who joined after 1 April contribute at the new default rate or actively make choices to contribute at a higher rate.

Table 3.2 shows the contribution rates for those members who joined in the final quarter of the year (after 1 April). Only those members whose have made at least two consistent contributions during the portion of the three-month period that they were members are included in the table.

Of the members who joined in the April to June period, just over half (52%) are currently contributing at the 2% rate, 46% have elected to contribute at 4%, and 2% of members have elected to contribute at the top 8% rate. However, it is important to note that these members are in the very early stages of membership and may change their rate in coming months.

Table 3.2: Member contribution rates for members joining post-1 April 2009

Contribution rate	Members	Percent of members
2%	18,616	52%
4%	16,354	46%
8%	595	2%
Other percent	153	<1%
Total	**35,718**	**100%**

Base: All members at 30 June 2009 who joined between April and June 2009 with EMS deductions. Those on contribution holidays and those who make contributions directly to providers or ad hoc contributions to Inland Revenue not through the EMS process are excluded. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

For those members who joined prior to 1 April, table 3.3 shows the numbers who have maintained their contributions at their pre-April rate and those who have changed their contribution rate. To determine whether a member had changed their contribution rate, a contribution rate for January to March was calculated to determine what each member was doing prior to April and for the period April to June to determine the rate after the changes were introduced. In order to be included in the table below, a member must have had at least two contributions during the period January to March (contributions made must be consistent) followed by at least two contributions (which are consistent) for the period April to June.

Table 3.3: Contribution rate changes for members joining pre-1 April 2009

Member contribution rate	Contribution rate post-1 April				
Contribution rate pre-1 April	**2%**	**4%**	**8%**	**Other contribution rate**	**Total**
2%	98%	2%	<1%	<1%	**100%**
4%	5%	94%	<1%	<1%	**100%**
8%	1%	1%	97%	<1%	**100%**
Other contribution rate	13%	11%	1%	75%	**100%**

Base: All members at 31 March 2009 with EMS deductions. Those on contribution holidays and those who make contributions directly to providers or ad hoc contributions to Inland Revenue not through the EMS process are excluded. Contribution rate is calculated in the first instance using the period January to March 2009 for each member and secondly using the period April to June 2009. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

The table shows that most of those who joined prior to 1 April 2009 have continued to contribute at the same rate after April.

- Ninety-four percent of those members who were contributing at a rate of 4% before 1 April have continued to do this after April and 97% of those contributing at 8% have maintained their contributions at that rate.

- Of those members who were contributing at the transitional rate of 2% prior to April, 98% have maintained their contributions at 2% and 2% of these members have increased to the 4% rate. Prior to the reduction in the minimum contribution rate, a transitional contribution rate arrangement existed to enable member to start contributing at a lower rate of 2% (if their employer agreed to match this with a 2% contribution as well) and to transition to a 4% rate by 2011.

- At this early stage, 5% of members who were contributing at 4% have changed to 2%.

It is still very early on under the new arrangements and it will take time to observe the extent to which members choose to contribute at the new lower rate or whether they opt for a higher rate. The figures here will only have captured those who changed their rate early on, at the first opportunity (i.e. it will not capture those who may have changed their rate but for whom a consistent contribution pattern at the new rate is not yet evident). Further members may choose to contribute at different rates at different points in their working life and it will take time for these behaviours to emerge. However, at this early stage, it appears that individuals' contribution choices are influenced by the default arrangements in place at the time at which they enrolled.

Understanding members' choices regarding their contributions (e.g. choice of rate, contribution holidays, whether or not individuals make additional ad-hoc contributions) is a priority for the evaluation as part of its broader investigation into the way in which individuals utilise KiwiSaver's various features and how these account management decisions influence longer-term savings outcomes. These dynamics will be considered further in research being undertaken with individuals in the 2009/10 year.

Member tax credit

Member tax credit (MTC) information assists in providing a fuller picture of members' contribution behaviour. This is because not all member contributions are passed through Inland Revenue and as a result, some of those members who appear, according to Inland Revenue data, to be non-contributors, will be contributing directly to their scheme provider. The groups of members most likely to be contributing directly to providers are those who are either self-employed or not working. Children (or others on their behalf) are also likely to contribute directly to providers but they are not eligible for MTC payments.

The data presented below relates to contributions made and accompanying MTC payments for the 2007/08 year. Providers have made MTC claims for 2008/09 but full data on claims paid is not yet available.

For the 2007/08 year, a total of $322 million was paid out to 588,837 members. At 30 June 2008 there were 716,637 KiwiSaver members, meaning that 82% of the year one membership base was both eligible to receive and did receive an MTC payment (i.e. they were working age, contributing members). Individuals may not have received an MTC payment because they were less than 18 years, they did not make contributions over the year, they opted-out and had their contributions refunded, or they closed their account.

Of those members who did receive an MTC payment, 83,146 (or 14%) received the maximum MTC payment and 505,691 (86%) received less than a maximum payment. In order to receive a maximum payment an individual must have been a member for the full 12-month period (July to June) and contributed more than $1,042.86 to their account. Note however that in the 2007/08 year, there were 366 days due to a leap year so the maximum payment an individual member could receive for this year was $1045.72. The relatively low number of people receiving a maximum payment in this first year is simply a function of the length of their membership, not the value of their contributions.

Of those who received a less than maximum payment, 7% (34,930 members) had been members for the full year and 93% (470,761 members) were members for only part of the year. Those who were members for the full year but did not receive the maximum payment did not contribute sufficiently to their account to receive the full claim.

Table 3.4: Member tax credit paid (year ended 30/06/08)

MTC payment	Members	Percent of members receiving MTC
Maximum payment ($1045.72)	83,146	14%
Less than maximum payment (< $1045.72)	505,691	86%
Total	**588,837**	**100%**

Base: All individuals with non-zero MTC payments made for contributions made in the 2007/08 year. Excludes MTC payments to complying funds.
Source: Inland Revenue administrative data.

Contribution holidays

The number of members on a contribution holiday has increased significantly over the course of KiwiSaver's second year. This is the result of the first members being eligible to take an ordinary contribution holiday from 1 July 2008. At the end of year one (June 2008), there were 3,280 individuals on a holiday for financial hardship reasons. At the end of KiwiSaver's second year there were 25,935 individuals on a contribution holiday (ordinary and financial hardship types combined). Of those, the vast majority were ordinary holidays. The numbers of members on ordinary holidays has increased by approximately 2,000 per month over the year.

Those on an ordinary holiday represented approximately 4% of those eligible to be on an ordinary holiday at June 2009. Those eligible to take an ordinary holiday are those who joined KiwiSaver on or before 30 June 2008 and receive income from salary or wages (an estimated 80% of KiwiSaver members at 30 June 2008 earned salary and/or wage income).

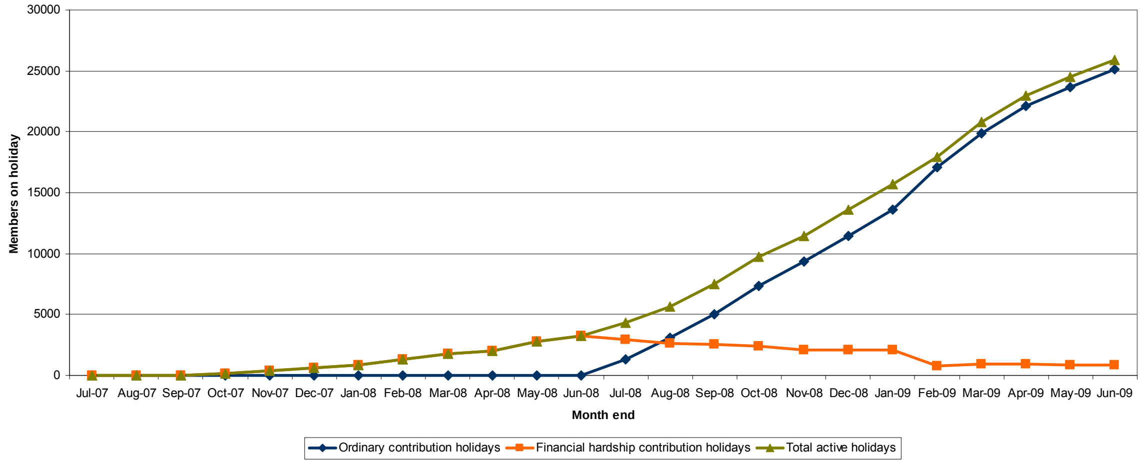
Over the course of the second year, figure 3.7 shows that the number of members on financial hardship holidays has declined. This is the result of members on these holidays being transferred off financial hardship holidays and onto ordinary holidays at their 12-month membership mark because members can only take a financial hardship holiday during their first year of membership.

Table 3.5: Contribution holidays (ordinary and financial hardship) (years ended 30/06/08 and 30/06/09)

Contribution holiday type	Members on holiday at 30/06/08	Members on holiday at 30/06/09
Ordinary contribution holidays	-	25,122
Financial hardship contribution holidays	3,280	813
Total active holidays	**3,280**	**25,935**

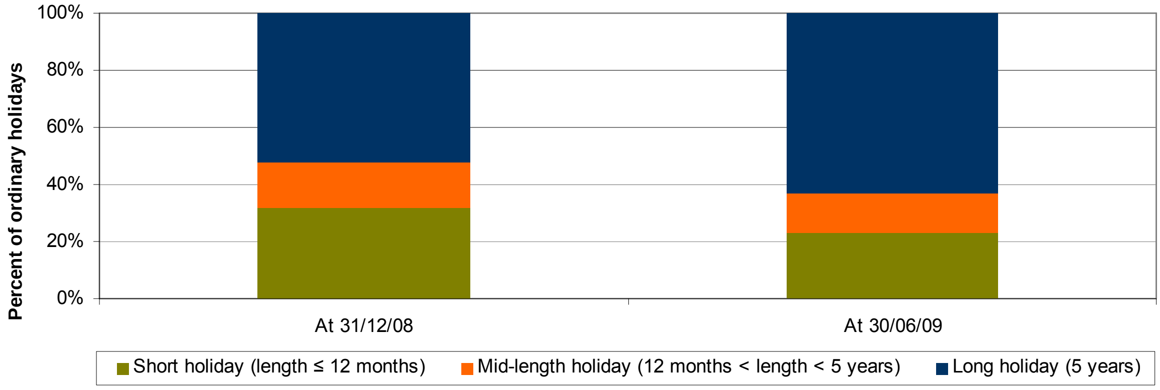
Base: All members at 30 June 2008 and 30 June 2009 on contribution holidays.
Source: Inland Revenue administrative data.

Figure 3.7: Contribution holidays (ordinary and financial hardship) by month



Base: All members at 30 June 2009 on contribution holidays.
Source: Inland Revenue administrative data.

Figure 3.8: Contribution holiday duration



Base: All members at 31 December 2008 and 30 June 2009 on ordinary contribution holidays.
Source: Inland Revenue administrative data.

The proportion of members on long holidays (i.e. five years) has increased over the year. At December 2008, six months after members became eligible to take ordinary holidays, those on five-year holidays made up 52% of all members on holiday. By June 2009, this figure had increased to 63%. Additionally, those on short holidays (i.e. up to 12 months) declined from one-third (34%) to one-quarter (24%) of holidaying members (figure 3.8).

There are a number of possible explanations for the growth in members on a five-year holiday, including:

- Members may have ceased regular contributions at the first opportunity in order to maximise the value of their MTC and minimise the contribution they are required to make to their accounts. In other words, members may be contributing to their accounts for the minimum 12-month period and then taking consecutive holidays while continuing to contribute only what is necessary to claim the maximum MTC;

- In the current economic environment members may find regular saving unaffordable or, alternatively, they may not wish to save in ways where that saving cannot be readily accessed, if needed; and

- An Inland Revenue administrative process whereby those members who apply to opt-out after having been members for more than 12 months are declined their opt-out but automatically granted a five-year contribution holiday.

Just because members are on contributions holidays does not mean that they do not continue to contribute to their accounts. Of those on a holiday, approximately two-thirds (66%) have contributed to their accounts while on holiday (including EMS deductions, ad-hoc payments and employer contributions).

There are higher rates of contributing while on holiday amongst those who are on short holidays compared with long holidays. Eighty-seven percent of those on holidays of up to one year have made contributions to their accounts compared with 58% of those who are on five-year holidays. Across both financial years to date, members have contributed a total value of $3.4 million to their accounts while on holiday ($3.3 million of this was contributed in the year to June 2009).

Understanding the dynamics of individuals' choices around contribution holidays is an evaluation priority and will be investigated through research with individuals underway for the 2009/10 year.

Contributions to children's accounts

Children (members under 18 years) make up a sizeable part of the KiwiSaver membership base. At 30 June 2009, or 17% of the membership were aged 17 years or younger. Of those members who are under 18 years, 6% (11,048 children) made contributions to their accounts, or had contributions made to their accounts on their behalf, through Inland Revenue in the year to June 2009; the vast majority of children (94%) made no contribution during the year.

This will not be a complete picture of contributions made by or on behalf of children; because most children are not in employment, their contributions are likely to be made directly to their scheme provider. However, even as a partial contributions picture, these figures show that there are a large number of KiwiSaver accounts being managed by providers for which no funds are flowing in and with balances of little or no more than the $1,000 kick-start payment.

Those that paid in to children's accounts through Inland Revenue made a total contribution of $2 million over the year to June 2009. This equates to an average contribution of $181 per contributing child and includes contributions made through salary and wage deductions as well as ad-hoc payments. Table 3.6 below shows that, of the contributing children, just over half (54%) contributed up to $100 to their account over the year. Eight percent contributed at least $500 to their accounts.

Table 3.6: Under 18s – contribution value

Contribution value	Number of children	Percent of contributing children
$100 or less	5,941	54%
$101 - 200	2,065	19%
$201 - 500	2,119	19%
$501 - 1000	682	6%
Greater than $1000	241	2%
Total contributing children	**11,048**	**100%**

Base: All members aged less than 18 years at 30 June 2009 with contributions made for the period 1 July 2008 to 30 June 2009.
Source: Inland Revenue administrative data.

Of those children who contributed, almost all (10,381 or 94%) contributed through an EMS meaning they are earning salary or wage income and 638 (6% of contributing children) made ad-hoc payments outside the EMS process. Very few contributed through both means. The number of payments made over the course of the year, whether through an EMS or ad-hoc payments, varies. Slightly less than one-third (31%) of contributing children made one or two payments. Just under one-fifth made more than 10 payments over the year.

Table 3.7: Under 18s – contribution type

Contribution type	Number of children	Percent of contributing children
PAYE only	10,381	94%
Ad hoc only	638	6%
PAYE and ad hoc	29	<1%
Total contributing children	**11,048**	**100%**

Base: All members aged less than 18 years at 30 June 2009 with contributions made for the period 1 July 2008 to 30 June 2009.
Source: Inland Revenue administrative data.

Table 3.8: Under 18s – number of contributions

Number of contributions	Number of children	Percent of contributing children
1-2 contributions	3,388	31%
3-5 contributions	2,924	26%
6-10 contributions	2,594	23%
More than 10	2,142	19%
Total contributing children	**11,048**	**100%**

Base: All members aged less than 18 years at 30 June 2009 with contributions made for the period 1 July 2008 to 30 June 2009.
Source: Inland Revenue administrative data.

Of those members who were enrolled in KiwiSaver as children (i.e. when they were less than 18 years) but had turned 18 by 30 June 2009, 40% had made contributions to their accounts in the period April to June 2009 either through an EMS or an ad-hoc payment to Inland Revenue.

What investment choices are members making?

Scheme choices

Table 3.9 below provides the breakdown of KiwiSaver members according to whether they have made an active choice of scheme, whether they have been allocated to a scheme nominated by their employer, or have been default allocated by Inland Revenue. The table records how a member entered their current scheme (i.e. the scheme they are a member of at June 2009), not how they entered any previous schemes of which they have been a member (i.e. if a member has opted to transfer between schemes the table will record the way they entered their new scheme).

At the end of the second year (year ended 30 June 2009), more than half (55%) of the membership base has made a choice of scheme, over one-third has been default allocated by Inland Revenue (34%) and the remaining 12% have been allocated to their employer's nominated scheme. Over the course of year two, the proportion of members making an active choice of scheme has increased slightly (from 49% of members at 30 June 2008 to 55% of members at 30 June 2009) and the proportion of those who have been default allocated by Inland Revenue has fallen (from 38% at June 2008 to 34% at June 2009). The percentage of the membership base allocated to an employer-nominated scheme is the same as the previous period.

It is not possible, however, to draw conclusions from table 3.9 about individuals' investment choices or risk profile as it records the way members entered their scheme, not the characteristics of the fund they are invested in. Additionally, the table is reporting data at the scheme, not the fund, level. Within any single scheme there are a range of fund choices available to members, from conservative to aggressive.

Table 3.9: Current scheme entry method

Scheme entry method	At 30/06/08		At 30/06/09	
	Members	Percent of members	Members	Percent of members
Default allocated	268,868	38%	369,577	34%
Allocated to employer-nominated scheme	94,895	13%	129,963	12%
Active choice scheme	352,483	49%	600,709	55%
Unspecified at year end	391	<1%	291	<1%
Total members	**716,637**	**100%**	**1,100,540**	**100%**

Base: All members at 30 June 2008 and 30 June 2009. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Table 3.10 below presents individuals' scheme choices by their method of enrolment. As with table 3.9, the scheme choice column indicates the way in which an individual entered their current scheme; it does not provide any information on the characteristics of the investment itself. The table shows:

- Almost all of those who have opted-in via a provider have made an active choice of provider and scheme because they approach a specific provider directly to be enrolled. The small numbers of members who have joined KiwiSaver this way but joined their current scheme through allocation by Inland Revenue are some of that whose scheme was wound up during the year and, until they choose another scheme, have been allocated by Inland Revenue amongst the six default and employer-nominated schemes.

- Two-thirds (66%) of those who have been automatically enrolled have been default allocated to a scheme by Inland Revenue and a further one-quarter (23%) have been allocated to their employer's nominated schemes. The remaining 11% have actively chosen their own scheme.

- For those who have opted-in via their employer, one-third (38%) have made an active choice of scheme, slightly less than half (46%) have been default allocated by Inland Revenue and 17% have been allocated to the scheme nominated by their employer.

Comparing year one (ended 30 June 2008) and year two (ended 30 June 2009) figures shows that the proportions of members who have been either automatically enrolled or opted-in via their employer making an active scheme choice at the end of year two have increased considerably on year one results. The percentage of automatic enrolees making a scheme choice has increased from 2% to 11% and employer opt-ins from 7% to 38%. These changes will be influenced by the change in enrolment method reporting.

Table 3.10: Current scheme entry method by enrolment method

Enrolment method and scheme choice		**Number of members**	**Percent of members**
Opt-in via provider		**477,971**	**43%**
	Active choice scheme	477,920	
	Default allocated	40	
	Allocated to employer nominated scheme	1	
	Unspecified at time of reporting	10	
Auto-enrolled		**426,629**	**39%**
	Active choice scheme	48,749	
	Default allocated	280,297	
	Allocated to employer nominated scheme	97,317	
	Unspecified at time of reporting	266	
Opt-in via employer		**195,940**	**18%**
	Active choice scheme	74,040	
	Default allocated	89,240	
	Allocated to employer nominated scheme	32,645	
	Unspecified at time of reporting	15	
	Total members	**1,100,540**	**100%**

Base: All members at 30 June 2009. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Scheme transfers

Table 3.11 and figure 3.9 below show the number of transfers made since KiwiSaver's inception, both those made within the funds holding period and standard transfers outside the funds holding period. The funds holding period refers to the three month period for which Inland Revenue holds a new member's funds while they make a choice of scheme. After the three-month period Inland Revenue transfers the member's funds to the chosen scheme or to the default scheme allocated, if no choice is made.

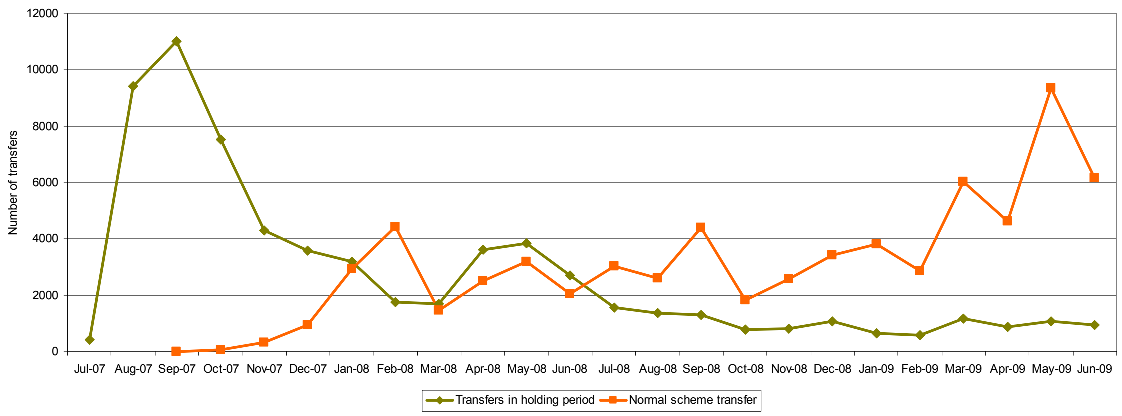
The total volume of scheme changes in year two is down on the first year of operation. However, the number of standard transfers rose almost three-fold in year two with steady monthly increases over the course of the year. The majority are the result of members voluntarily changing schemes. The remainder are the result of the market consolidation in the final quarter of the year. These members were reallocated to the six default products where they may choose to remain or transfer to another scheme of their choice. As the flow of new members into KiwiSaver continues to slow and as members' account balances increase likely prompting members to actively monitor their accounts, it is likely that the number of standard transfers will grow as providers compete for the business of the existing rather than new members.

Table 3.11: Total scheme transfers (years ended 30/06/08 and 30/06/09)

Transfer type	Year one (ended 30/06/08)	Year two (ended 30/06/09)	Total
Standard transfer	17,975	50,735	68,710
Transfer in holding period	53,175	12,233	65,408
Total transfers	**71,150**	**62,968**	**134,118**

Base: All transfers for the period 1 July 2007 to 30 June 2009.
Source: Inland Revenue administrative data.

Figure 3.9: Monthly scheme transfers



Base: All transfers for the period 1 July 2007 to 30 June 2009.
Source: Inland Revenue administrative data.

Transfers taking place within the holding period, as a result of members making an active choice of scheme, have been stable over the year but the numbers of members transferring within the holding period in year two are significantly less than the numbers transferring in the first year. The decline in the numbers of members changing schemes within the funds holding period suggests that those who joined KiwiSaver early on were more likely to choose their own scheme and to do so shortly after enrolling.

Investment fund summary

The table below provides a breakdown of the nature of the funds in which KiwiSaver members are invested. This breakdown is taken from the report of the Government Actuary to parliament and the data is at 31 March 2009. The default investment products are separated out here but they are also conservative products. Additionally the members and assets invested in the default funds have been separated into those who were allocated to the default products via the automatic enrolment process and those who have made an active choice to invest in these funds. Note that those members who split their contributions across more than one fund are counted against all the fund types to which they contribute.

Table 3.12: Investment fund summary (years ended 31/03/08 and 31/03/09)

Investment funds	Members (31/03/08)	Investment value ($m) (31/03/08)	Members (31/03/09)	Investment value ($m) (31/03/09)
Default fund				
Default allocated	161,103	249	309,708	874
Active default	22,578	36	63,186	156
Conservative	80,897	84	211,111	280
Balanced	119,322	166	242,620	634
Growth	96,526	128	217,637	475
Single sector funds				
Cash	14,570	16	217,202	143
Shares	6,555	6	13,761	22
Fixed interest	2,455	2	3,363	5
Property	2,325	1	3,258	8
Socially responsible	844	1	2,419	5
Other	9,846	14	24,292	54
Total	**-**	**703**	**-**	**2,656**

Base: Investment fund summary for all KiwiSaver schemes registered with the Government Actuary as at 31 March 2008 and 31 March 2009 that provided statistical returns to the Government Actuary as required by section 125 of the KiwiSaver Act 2006. Members who split their contributions between different funds are counted against each type of fund to which they contribute. Totals may not add due to rounding.
Source: Report of the Government Actuary for the years ended 30 June 2008 and 2009.

Both in terms of members and the value of assets invested, KiwiSaver investors continue to favour relatively conservative investment options. At March 2009, just less than half (49%) assets under management were invested in relatively conservative options (default funds plus other conservative funds), compared with 24% in balanced funds and 18% in growth-orientated funds. Data from the Reserve Bank New Zealand's Managed Funds survey shows that the breakdown of total KiwiSaver funds under management for the March 2009 quarter has 56% invested in New Zealand assets and 44% invested in overseas assets. This breakdown has remained relatively consistent over the previous year.

Data from Morningstar's KiwiSaver Performance Survey shows that, for the year to 31 March 2009, conservative funds have generated the best returns for members, given the relative performance of the range of asset classes. However, saving for retirement is a long-term game and some caution should be applied when assessing short-term performance results (returns are provided for the last three, six and twelve months).[3]

Understanding more about individuals' investment choices and preferences will be included in the evaluation's research with individuals in 2009/10.

[3] Performance data for the KiwiSaver funds included in the survey are available from the Morningstar website. Fund returns provided are after fees and before tax.

Conclusions and next steps

At 30 June 2009, KiwiSaver had been in operation for two years. This second annual report of the evaluation has sought to describe the trends in membership, enrolment and member choices over those two years and to draw comparisons between them. It has also discussed the early response to the change in policy regarding the lowering of the minimum member contribution rate.

Membership has slowed but continues to grow at a steady pace

Over the course of the second year (year ended 30 June 2009), the membership base has grown steadily at a rate of approximately 32,000 members per month to reach 1.1 million members by the end of the year. The total membership grew by 54% over the year, driven by a significant increase in the number of people opting-in directly with providers and by the continued growth in the enrolment of children. Automatic enrolment has not yet overtaken opting-in as the primary means of enrolment.

Forecasts anticipate that the rate of membership growth will now slow considerably, as a result of both smaller number of enrolments and the beginnings of members reaching retirement age and closing their accounts, and reach 1.38 million by 2013/14.

Funds flowing to providers have doubled and assets under management are growing

The value of funds passed from Inland Revenue to providers for investment in year two ($2.116 billion) is double that transferred for year one. The proportion of total funds being contributed by members and employers increased in year two and the Crown's proportion declined. Overall, across both years, 42% of funds have been contributed by members, 13% by employers and 45% by the Crown.

At the end of the June quarter, the value of KiwiSaver assets under management was $3.039 billion. Assets are largely invested in relatively conservative funds, which, in the year to March 2009, generated the best returns for members. At March 2009 49% of assets were invested in conservative options compared with 18% in growth options. An estimated 56% of funds are invested in New Zealand assets and 44% in overseas assets. The market remains relatively concentrated with the majority of assets under management held in nine schemes.

After the wind up of two schemes during the final quarter of the year, there were 52 schemes available to members at the conclusion of the year offered by 30 providers. The number of scheme transfers has grown almost three-fold over the year. Some of these transfers are the result of the winding up of two schemes and members either voluntarily transferring prior to scheme wind up or being reallocated by Inland Revenue amongst the six default products. The number of scheme changes within the funds holding period has reduced significantly suggesting that those who joined in year two have been less inclined to make their own choice of scheme at the point at which they join.

The age profile of the membership base has changed

Over the preceding two years, the age profile of those joining KiwiSaver has changed. Over time, the proportion of individuals aged 45 years and above enrolling has declined and the proportion of individuals under 25 enrolling has increased. The proportion of enrolments coming from the mid-age bracket has remained relatively stable over the two-year period.

At the end of year two, the gender breakdown of KiwiSaver members was the same as it was at the conclusion of year one; 52% of the membership base at 30 June in both years were female and 48% male. The income distributions of members and the eligible population are similar. Just over 50% of both the KiwiSaver member and the eligible population earned up to $30,000 in 2008 and just over three-quarters of both populations earned up to $50,000 that year.

KiwiSaver costs

Over the course of the year KiwiSaver cost the Crown and employers a total of $1.194 billion; $149 million for employers in net contribution costs and $1.045 billion for the Crown in contribution payments to members' accounts and ETC payments for employers. For the year to 30 June 2009, employers contributed $355 million in employer contributions and received an offsetting $206 million in ETC payments. This however, does not represent the full costs of KiwiSaver for employers as it does not include day-to-day administrative and compliance costs associated with accommodating KiwiSaver in the workplace. The Crown contributed $839 million to members' accounts and $206 million in ETC payments for employers – an increase of more than two-thirds on year one costs.

Member contributions

Part way through year two, in December 2008, the government passed legislation making changes to the minimum required member contribution rate. In April 2009, these changes took affect. The evaluation has considered both those individuals who were members of KiwiSaver prior to the changes in required rate and those who have joined subsequently. It is still very early on under the new arrangements and it will take time to observe the extent to which members choose to contribute at the new lower rate or whether they opt for a higher rate. Further members may choose to contribute at different rates at different points in their working life and it will take time for these behaviours to emerge.

At the end of the year, however, most members were contributing at 4% of their salary or wages. Twelve percent was contributing at a 2% rate. However, of those who joined KiwiSaver since the changes were in place, just over one half were contributing at 2% and slightly less than one half had chosen to contribute at a higher 4% or 8% rate. Of those who joined before 1 April 2009, most have not changed their previous contribution rate. This suggests that, for the most part, most individuals are being influenced by the default arrangements in place at the point that they join KiwiSaver, although early figures for enrolments since April suggest that members may be exercising some choice over their contribution rate.

Most members under 18 years are not contributing to their accounts. For the 2008/09 year, 6% of members who are children made contributions to their accounts at a total value of $2 million. Of these, almost all are contributing through salary or wage deductions. While only a partial contribution picture, there are likely large numbers of children's accounts containing nothing more than the $1,000 kick-start payment being managed by providers. Of the contributing children, almost all are contributing through salary or wage deductions.

The number of members on a contribution holiday has increased considerably over the year due to the first members being eligible for an ordinary contribution holiday from July 2008. At the end of the year, 25,935 members (or approximately 4% of those members eligible to take a holiday) were on a holiday compared with 3,280 who were on a financial hardship holiday at the end of year one. The number of individuals on long, five-year holidays is growing.

Evaluation next steps

Over the current 2009/10 year, the evaluation will add to the understanding of the varying costs and benefits of KiwiSaver, the dynamics and development of the KiwiSaver market, and the savings behaviour of individuals by undertaking the following:

- Research with individuals to provide early information on the impact of KiwiSaver on individuals' savings and the extent to which KiwiSaver specific features are influencing take-up and individuals' approaches to managing their accounts;

- Research with employers to determine the impact of KiwiSaver on employers' costs and to determine how employers' approach to KiwiSaver (e.g. in terms of remuneration policy and accommodation of existing workplace superannuation schemes) affects employees' participation;

- Beginning the evaluation of the homeownership features investigating the awareness and expected uptake of first home withdrawal and the deposit subsidy; and

- On the market side, update industry baseline research to profiling the KiwiSaver market and KiwiSaver's impact on the wider superannuation and managed funds sector.

Results from this research will be available at the end of the year.

APPENDICES

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Revisions to reporting enrolment method

Note that for the financial year beginning 1 July 2008, a change has been made in the way enrolment method is reported. The adjustment has been made to provide a more accurate picture of members' enrolment methods and their choices of schemes. Point in time data in this report for 30 June 2008 has been revised using the revised method to ensure consistency between figures presented for year one and year two. However trend data (e.g. monthly enrolment data) for year one has not been updated.

Previously, those who were automatically enrolled or opted-in via their employer and nominated their own provider (in preference to the default provider to which they would otherwise have been allocated) during the three-month period where Inland Revenue holds members' contributions had their enrolment method updated to opt-in via provider. The revised reporting method will mean these members retain their auto-enrolled or opt-in via employer status and be reported as having actively chosen their own scheme.

The change in method of reporting means that:

- Monthly data published for July 2007 to June 2008 will understate the number of members who have opted-in via an employer and, to a lesser extent the number automatically enrolled, and will overstate the numbers of members who have opted-in via a provider.

- Trend data for members joining by the three different enrolment methods for the first year of KiwiSaver's operation (July 2007 to June 2008) is not comparable to enrolment method figures published for July 2008 onwards.

Definitions of the three enrolment methods are as follows:

- Automatically enrolled – the method of enrolment for individuals who change jobs. Upon commencing new employment, the individual is enrolled by their employer, if they are not already a member. They have eight weeks in which to opt-out if they do not wish to be a member. Individuals who are automatically enrolled are allocated to their employer's nominated scheme (if one is in place) or otherwise to one of the six default schemes. If they do not wish to be a member of either the employer-nominated or default scheme they are allocated to, they can select their scheme provider.

- Opt-in via employer – a prospective member submits an application form through their employer to Inland Revenue. Members who opt-in via their employers are allocated to their employer's nominated scheme (if the employer has one) or otherwise to one of the six default schemes. If they do not wish to be a member of either the employer-nominated or default scheme they are allocated to, they can select their scheme provider.

- Opt-in via provider – a prospective member goes directly to a scheme provider of their choice and submits an application that is forwarded to Inland Revenue by the provider on the member's behalf.

Data tables

Table A1: Membership and opt-outs

Month	Total members	Monthly members	Total opt-out	Monthly opt-out
Aug-07	113,915	113,915	6,345	6,345
Sep-07	195,628	81,713	17,245	10,900
Oct-07	266,619	70,991	34,407	17,162
Nov-07	316,865	50,246	46,446	12,039
Dec-07	381,156	64,291	57,977	11,531
Jan-08	414,144	32,988	73,300	15,323
Feb-08	469,330	55,186	88,680	15,380
Mar-08	521,247	51,917	101,988	13,308
Apr-08	600,043	78,796	115,347	13,359
May-08	673,942	73,899	128,878	13,531
Jun-08	716,637	42,695	137,762	8,884
Jul-08	758,860	42,223	145,955	8,193
Aug-08	785,095	26,235	156,398	10,443
Sep-08	812,018	26,923	166,450	10,052
Oct-08	837,881	25,863	176,120	9,670
Nov-08	868,034	30,153	183,185	7,065
Dec-08	900,509	32,475	191,240	8,055
Jan-09	932,636	32,127	198,395	7,155
Feb-09	961,460	28,824	203,631	5,236
Mar-09	1,000,283	38,823	208,890	5,259
Apr-09	1,033,829	33,546	214,012	5,122
May-09	1,070,371	36,542	218,487	4,475
Jun-09	1,100,540	30,169	221,045	2,558

Base: All enrolments 1 July 2007 to 30 June 2009 at each month end. Note the change in enrolment method reporting which applies from July 2008 onwards. Total net enrolments and opt-out columns are unaffected by the change.
Source: Inland Revenue administrative data.

Table A2: Opt-in and auto-enrolled members

Month	Total opt-ins	Monthly opt-ins	Total auto-enrolled	Monthly auto-enrols
Aug-07	95,292	95,292	18,623	18,623
Sep-07	157,382	62,090	38,246	19,623
Oct-07	201,274	43,892	65,345	27,099
Nov-07	229,325	28,051	87,540	22,195
Dec-07	255,701	26,376	125,455	37,915
Jan-08	271,392	15,691	142,752	17,297
Feb-08	295,972	24,580	173,358	30,606
Mar-08	326,237	30,265	195,010	21,652
Apr-08	380,160	53,923	219,883	24,873
May-08	429,621	49,461	244,321	24,438
Jun-08	457,338	27,717	259,299	14,978
Jul-08	465,385	8,047	293,475	34,176
Aug-08	483,293	17,908	301,802	8,327
Sep-08	502,109	18,816	309,909	8,107
Oct-08	519,269	17,160	318,612	8,703
Nov-08	537,033	17,764	331,001	12,389
Dec-08	559,323	22,290	341,186	10,185
Jan-09	573,462	14,139	359,174	17,988
Feb-09	586,645	13,183	374,815	15,641
Mar-09	608,817	22,172	391,466	16,651
Apr-09	628,977	20,160	404,852	13,386
May-09	653,366	24,389	417,005	12,153
Jun-09	673,911	20,545	426,629	9,624

Base: All enrolments 1 July 2007 to 30 June 2009 at each month end. Note the change in enrolment method reporting which applies from July 2008 onwards.
Source: Inland Revenue administrative data.

Table A3: Membership forecasts

Enrolment method	2009/10f	2010/11f	2011/12f	2012/13f	2013/14f
Opt-in via provider	522,000	554,000	576,000	543,000	533,000
Opt-in via employer	226,000	244,000	262,000	267,000	268,000
Auto-enrolment	465,000	515,000	544,000	567,000	578,000
Total members	1,213,000	1,313,000	1,382,000	1,377,000	1,379,000
Total new members	123,000	101,000	69,000	64,000	51,000

Base: Forecast members by enrolment type. Includes contribution holidays and excludes complying fund members.
Source: Inland Revenue Befu 2009 forecasts.

Table A4: Members on ordinary and financial hardship contribution holidays

Month end	Ordinary holidays	Financial hardship holidays	Total active holidays
Jul-07	0	0	0
Aug-07	0	33	33
Sep-07	0	34	34
Oct-07	0	182	182
Nov-07	0	396	396
Dec-07	0	642	642
Jan-08	0	833	833
Feb-08	0	1,325	1,325
Mar-08	0	1,741	1,741
Apr-08	0	2,041	2,041
May-08	0	2,766	2,766
Jun-08	0	3,280	3,280
Jul-08	1,336	2,968	4,304
Aug-08	3,056	2,603	5,659
Sep-08	5,014	2,521	7,535
Oct-08	7,384	2,365	9,749
Nov-08	9,385	2,088	11,473
Dec-08	11,476	2,121	13,597
Jan-09	13,599	2,116	15,715
Feb-09	17,120	800	17,920
Mar-09	19,854	937	20,791
Apr-09	22,098	893	22,991
May-09	23,673	868	24,541
Jun-09	25,122	813	25,935

Base: All members at 30 June 2009 on contribution holidays.
Source: Inland Revenue administrative data.

Table A5: Scheme transfers

Month	Standard transfer	Transfer in holding period
Jul-07		419
Aug-07		9,434
Sep-07	1	11,034
Oct-07	63	7,527
Nov-07	334	4,317
Dec-07	957	3,588
Jan-08	2,927	3,210
Feb-08	4,441	1,774
Mar-08	1,483	1,705
Apr-08	2,506	3,620
May-08	3,210	3,840
Jun-08	2,053	2,707
Jul-08	3,042	1,573
Aug-08	2,617	1,357
Sep-08	4,392	1,298
Oct-08	1,812	785
Nov-08	2,589	815
Dec-08	3,429	1,076
Jan-09	3,813	663
Feb-09	2,857	586
Mar-09	6,036	1,163
Apr-09	4,646	894
May-09	9,346	1,068
Jun-09	6,156	955
Total	**68,710**	**65,409**

Base: All transfers for the period 1 July 2007 to 30 June 2009.
Source: Inland Revenue administrative data.

Measuring impact on savings

Evaluation objective

The objective of KiwiSaver as outlined in the KiwiSaver Act 2006 is:

To encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.

In light of this, a primary objective of the evaluation is to determine what impact KiwiSaver has had on the savings and asset accumulation practices of individuals. Specifically, the evaluation aims to determine whether the retirement savings and net worth of members are greater than those of non-members and whether any difference can be attributed to KiwiSaver membership.

Value of SoFIE for the evaluation

There are two primary benefits of SoFIE for the evaluation. Firstly, SoFIE is a longitudinal dataset with information on savings practice, participation in superannuation schemes, and net worth. For the evaluation to determine the impact of KiwiSaver on individuals' savings behaviours, requires a comparison of behaviour before and after the implementation of the scheme and an assessment of the counterfactual. A longitudinal data source like SoFIE supports this kind of analysis.

Secondly, SoFIE collects a greater range of socio-demographic data on individuals (e.g. educational attainment) than is available from Inland Revenue's administrative data. These data will contribute to the evaluation's understanding of the characteristics of members and non-members, and how these characteristics may influence membership decisions.

Research questions

The evaluation is seeking to answer the following research questions using the SoFIE data:

- What profile characteristics are associated with a higher probability of being a KiwiSaver member?
- What profile characteristics are associated with a higher probability of opting-in to KiwiSaver, being automatically-enrolled and opting-out of KiwiSaver?
- Is the savings rate of KiwiSaver members (1) higher than it was before they became members? (2) higher than non-members with similar profile characteristics?
- Do KiwiSaver members have higher net worth than (1) prior to joining KiwiSaver? (2) non-members with similar profile characteristics?

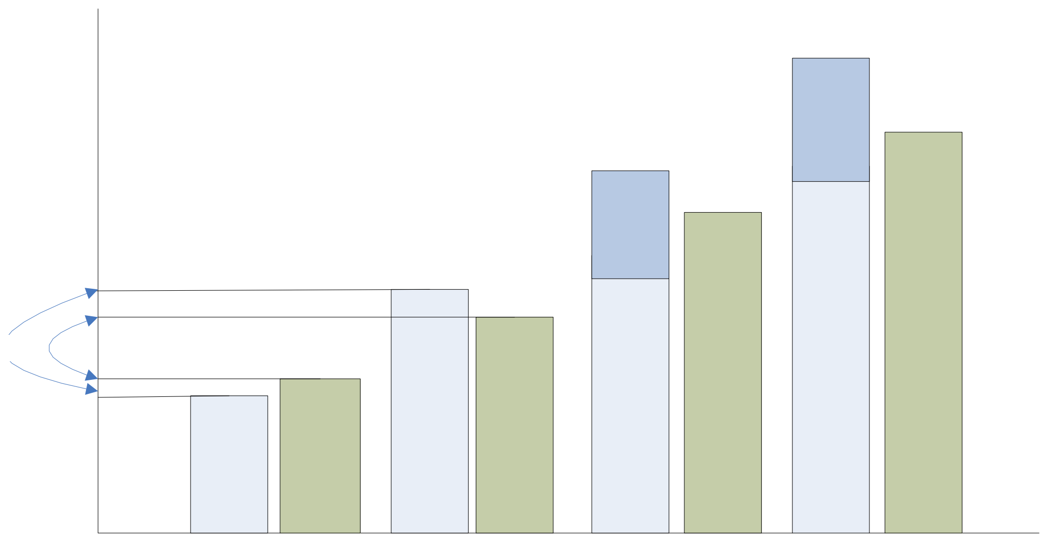
- Is KiwiSaver membership associated with changes in the composition of household assets and liabilities? In particular, has the proportion of wealth in workplace superannuation schemes changed?

Measuring changes in savings

In order to answer the key research questions, the evaluation intends to use wave 4 data to establish the baseline net worth position for both members and non-members, and the changes in net worth between wave 2 and wave 4 for both members and non-members as the baseline savings rate.

The evaluation will be able assess the impact of KiwiSaver by comparing net worth (including the proportion of members' net worth held in KiwiSaver assets) and savings rates between waves 4 and 6 and waves 6 and 8 for both members and non-members.

Net worth and savings rates for KiwiSaver members and non-members



KiwiSaver questions

The following information will be collected in the wave eight assets and liabilities module: membership status; enrolment method; date of enrolment; reason for non-membership; whether actively contributing; rate of member contribution; contributing employer status; contributions holiday status; and length of contributions holiday. Wave eight will be in the field from October 2009 to December 2010.